

## With a clear commitment to our customers and measures to bolster Group strengths, Seiyu will establish high profitability.



Masao Kiuchi  
President

### Second Consecutive Increase in Sales and Profits

In fiscal 2001, ended February 28, 2002, consolidated revenue increased 3.5 percent to ¥1,108.8 billion and operating income rose 28.0 percent to ¥20.1 billion. Net income was ¥5.2 billion, as Seiyu achieved growth in sales and income for the second consecutive year.

On a non-consolidated basis, revenue declined 5.7 percent year-on-year to ¥784.5 billion, and operating income increased 0.4 percent to ¥13.3 billion. Increases in both consolidated and non-consolidated profit reflect the success of the business reforms of the past few years in strengthening the earnings structure of Seiyu and its group companies.

Seiyu has aggressively implemented key measures such as strengthening sales by increasing product appeal and revitalizing existing stores, and expanding sales opportunities by further extending operating hours and reducing the number of store holidays. In addition, we have worked to structurally reduce costs by converting fixed costs such as personnel expenses to variable costs.

The Seiyu Group's interest-bearing debt has been halved since 1996, from ¥1,238.0 billion to ¥611.9 billion. We will continue working to reduce interest-bearing debt, as well as taking

steps to raise profitability while practicing cash flow-oriented management.

### Strengthening Consolidated Management

Aiming at the next growth trajectory, in fiscal 2002 Seiyu will focus on achieving significant improvement in earnings for the entire group. Targets include consolidated revenue of ¥1,150 billion (a 3.7 percent year-on-year increase) and operating income of ¥25 billion (a 24.5 percent increase).

A key to achieving these goals will be strengthening cooperation within the group. At the end of fiscal 2001, the Seiyu Group consisted of 48 companies. We will work to forge a closer relationship between these companies and Seiyu, as well as align the interests and objectives of the entire group and share mutual responsibility for achieving them. In this way, we will build the relationships of a top group in the retail industry.

The core retail business group comprising The Seiyu Ltd., Kyusyu Seiyu Co., Ltd., Hokkaido Seiyu Co., Ltd., S.S.V. Inc., the Ryubo Group, and Tohoku Seiyu Co., Ltd., expanded with the addition of Sunny Co., Ltd. in August 2001. As of February 2002, stores numbered 399 and generated fiscal 2001 revenues of approximately ¥1.1 trillion. In the future, while expanding the scale of our operations further, we will strengthen earnings by taking advantage of scale to procure merchandise at advantageous terms and lower merchandise costs. In addition, cooperation between Seiyu and its group companies will promote greater unity of purchasing operations and enhanced purchasing power.

In our finance and real estate businesses, which are handled by companies such as The SCC Ltd., we are working to increase asset efficiency by integrating asset management operations. Furthermore, we will strengthen group support businesses in ways such as boosting the efficiency of indirect operations through effective utilization of personnel resources and the Business Support Center, while promoting optimization of consolidated management.

## Restoring Earnings Power

Seiyu's merchandising strategy is to focus on food, apparel and household goods and to improve profitability. Sales of food have been favorable, but we are working to strengthen them further by expanding sales of prepared foods and alcoholic beverages, using the attractive power of our fresh food sections. Strengthening our product selection in this way will have an energizing effect on sales.

Along with increasing sales of private brand clothing lines such as WEST WIN and Clothing, we will improve profit margins by enhancing inventory efficiency. These measures will support our achievement of profit goals.

Boosting profit margins is also a fundamental objective in our household operations. We are aiming for a substantial increase in sales in this category, centered on the new lifestyle brand Martha Stewart Everyday, which has gained support from many customers since its introduction in September 2001.

Our retail store strategy is to promote an appealing store image by renovating established Seiyu stores. In 2001, we renovated 30 stores, focusing on supermarkets. In new store openings, we are dedicating particular effort to the success of The Mall Mizuho 16, which opened in March 2002 as Seiyu's first large-scale shopping center in the Tokyo area. In fiscal 2002, Seiyu plans to open 13 stores, mainly supermarkets, in the Tokyo area.

Launched in May 2000, online supermarket Seiyu Net Super (<http://www.the-seiyu.com>), which offers same-day delivery in certain areas, has been steadily expanding its membership. As of the end of May 2002, membership had reached 30,000.

## Further Enhancing Customer Satisfaction

In the retail industry, stores that do not put a customers-first policy into noticeable practice will not become the choice of customers. For this reason, thoroughly instituting our customers-first philosophy is an objective as critical as strengthening the Seiyu Group.

Keeping in mind good service to and

relations with customers, each and every Seiyu employee responds to customers with a smile. Our customer satisfaction activities to date began in 1998 with "freshness patrols" that take the perspective of customers and remove inferior products from the shelves. In addition to improving the freshness of our perishable foods, we have implemented our "exchanges and refunds gladly given" policy in response to returns of purchased merchandise.

We will continue implementing measures to improve customer satisfaction such as extending store hours to put our customers-first philosophy into practice.

## Tie-up with Wal-Mart

In March 2002, Seiyu signed a memorandum of understanding for a comprehensive business tie-up agreement with Wal-Mart Stores, Inc., the world's most successful retailer. With the retail industry in Japan in an ongoing process of restructuring, we sensed the need to establish a new strategic partner in order to rise above the competition. On the other hand, seeking a smooth entry into the Japanese market, Wal-Mart perceived a need for management with an intimate knowledge of this market. As a result, both companies reached agreement on a business tie-up.

We expect Wal-Mart's expertise in large-scale supply networks and efficient management to give us a competitive edge in the market in the future. Through the opportunities that arise along with this agreement, we will further strengthen our marketing capabilities and profit structure as well as putting all our effort into maximizing Seiyu's value.

We look forward to the continued support and understanding of our shareholders, business associates and all our other stakeholders.



Masao Kiuchi  
President